



Kentucky District Office

502.582.5971

Somerset Office

606.677.6082

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Changes to the 7(a) & 504 Programs as a result of new legislation

On April 5, 2004, H.R. 4062, which provides a temporary extension of authorization for certain SBA programs, was signed into law. Some of the most important changes are summarized in SBA Policy Notice 0000-1727. These changes are effective starting on April 5, 2004, and expire on September 30, 2004, unless extended by subsequent legislation.

7(a) Program Changes

As a result of this legislation, SBA will be able to provide approximately an additional \$3 billion (for a total of approximately \$12.5 billion) in 7(a) loan guarantees through the end of this fiscal year.

The following is a summary of the 7(a) program changes that take effect immediately.

Loan Amount

1. Pursuant to this Notice, the temporary \$750,000 loan cap imposed by Policy Notice 5000-902 dated December 30, 2003 and which took effect on January 8, 2004, is lifted. The limit on the gross amount of a 7(a) loan once again is \$2.0 million, under section 7(a)(3)(A) of the Small Business Act ("Act").

H.R. 4062 temporarily increases the loan guaranty limit under section 7(a)(3)(A) of the Act from \$1.0 million to **\$1.5 million**. (For example, a \$2.0 million loan may now have a 75% guaranty.) This increase in the loan guaranty limit applies to loans approved on or after April 5, 2004 and through and including September 30, 2004.

Lien Position/Combination Financing

1. Pursuant to this Notice, the portion of Policy Notice 0000-1709 dated January 13, 2004, which temporarily prohibited the piggyback loan structure (see SOP 50 10 4, Subpart A, Chapter 2, paragraph 4(g)(3)) from qualifying for a 7(a) loan, is rescinded.

H.R. 4062 also creates a temporary new term, "Combination Financing," to describe a type of financing commonly known as "piggyback financing". The legislation provides that Combination Financings must meet the following requirements:

The financing must be comprised of both a loan guaranteed under the 7(a) loan program and a commercial loan which is not guaranteed by the federal government.

The commercial loan may be made by the same participating lender that is making the 7(a) loan or by a different lender.

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The commercial loan may be (but is not required to be) secured by a lien senior to the lien securing the 7(a) loan.

The commercial loan may be made by a PLP lender.

The commercial loan amount must not exceed the gross amount of the 7(a) loan.

If a PLP lender is making both the commercial loan and the 7(a) loan in a Combination Financing, the lender must submit the 7(a) loan to the SBA District Office, not the PLP Processing Center, for processing and approval

At least 75% of the proceeds of a Combination Financing must be used for real estate and long-term, fixed assets.

The lien position for the SBA guaranteed loan may be no lower than second position. For the purpose of determining the size of the SBA loan, the "project" shall be defined as the total amount financed. It will not include the borrower's down payment or any other items. The first lien note must be for a purpose that would be eligible for SBA financing. The lender cannot foreclose on the first lien note without foreclosing on the SBA note, therefore there must be a cross default provision in both loan notes to ensure they are treated as one loan. Each of these items must be documented in the loan file to expedite review of the case. Please refer to SOP 5010 (4)(E) Chapter 2 (Business Loan Eligibility), Paragraph 4 (Utilization of Personal Resources) (d) (3) through (9).

Guarantee and Annual Fees

1. If the commercial loan has a senior credit position to the 7(a) loan, a one-time fee equal to **0.7 percent of the amount of the commercial loan** is to be paid to SBA. This fee shall be paid by the SBA participating lender, and must be remitted when the up-front guarantee fee is paid. This fee may not be passed on to the borrower. If the commercial loan is in a shared lien (sometimes known as *pari passu*) or subordinate lien position to the 7(a) guaranteed loan, this one-time fee does not apply.

2. The on-going annual fee on all loans approved on or after April 5, 2004 and through and including September 30, 2004, is **increased to 0.36 percent** from the 0.25 percent previously allowed under section 7(a)(23) of the Act.

3. For loans approved on or after April 5, 2004 and through and including September 30, 2004, lenders **are not permitted to retain 25 percent** of the up-front guarantee fee on loans with a gross amount of \$150,000 or less (as previously allowed under section 7(a)(18)(B) of the Act), but rather must remit the full amount to SBA.

For loans approved on or after April 5, 2004 and through and including September 30, 2004, an additional up-front guarantee fee equal to **0.25 percent of the amount by which the guaranteed portion of the loan exceeds \$1.0 million**, must be paid to SBA.

SBA Express Program Changes

SBA Express lenders may now approve SBA Express loans up to **\$2.0 million** (gross amount) using existing SBA Express procedures.

SBA will continue to accept applications for new participants in SBA Express and will continue to handle renewals under the current procedures.

The legislation does not change the current policies and procedures governing Export Express or Community Express.

Policy Waivers

The Associate Administrator for Financial Assistance is hereby delegated the authority to waive the requirements not specifically contained in the statute.

504 Program Changes

The legislation extends SBA's authority to collect certain fees with respect to 504 loans, through September 30, 2004.

We plan to issue a separate notice addressing procedural issues raised as a consequence of the legislation. SBA District Offices with questions on this notice may direct their questions to Jim Hammersley, Director, Office of Loan Programs at james.hammersley@sba.gov. Lenders are directed to forward questions to the local SBA field office.

Hector V. Barreto
Administrator

Loan Liquidations Consolidated to Herndon VA Center

Due to the liquidation function being centralized to the Herndon VA Center, the Kentucky District Office no longer directly assists lenders in the liquidation of SBA loans. On January 23, 2004, liquidation files were shipped to the Center and letters were sent to the lenders notifying them of the change. Below are a few frequently asked questions regarding the centralization of the liquidation process. To see all of the FAQs go to <http://www.sba.gov/banking/herndonfaq>.

Frequently Asked Questions

Q1. What is the National Guaranty Purchase Center (Herndon Center), and how will it affect me? Answer: The Herndon Center has been created to centralize all guaranty purchase processing and lender liquidation oversight into a single national location. The centralization of purchases and liquidation oversight will allow for increased standardization of these functions and a more consistent response time for lender requests. To this end, the purchase and liquidation oversight processes are being streamlined in order to become more effective and efficient.

Q3. Who will I notify when a loan needs to be placed in liquidation? A: You should notify the office that currently services the loan, most likely either the Fresno or Little Rock Commercial Loan Service Centers. Fresno or Little Rock will transfer liquidation loans to the Herndon Center, and you will receive notification and instructions from Herndon shortly after a file is received.

Q4. Do I need to send duplicate copies of documentation to the Herndon Purchase Center when placing a loan in liquidation which is still at the Fresno or Little Rock service center? Answer: No. Send one submission to Fresno or Little Rock and these centers will send the loan file with your documentation to Herndon as one package.

Q6. Do I need to send a request for SBA approval or concurrence if an action is within my unilateral authority? Answer: No. If the action falls within your unilateral authority it is not necessary to request approval or concurrence from SBA. Whether approval is necessary is determined by type of lender and loan program.

Q7. Will I continue to use the Fresno and/or Little Rock Commercial Loan Service Centers? Answer: Yes, approved loans and loans in regular servicing status will continue to be handled by Fresno and/or Little Rock. Newly delinquent loans that are undergoing workout or restructure will also be retained in Fresno or Little Rock. Loans that are placed in liquidation status will be transferred from Fresno and Little Rock to Herndon for monitoring and to provide a resource for lenders requiring SBA action or approval in the liquidation process.

Q9. How will I know if my loan has been transferred from Fresno or Little Rock to Herndon? Answer: You will receive written notification and instructions from Herndon several days after a loan is transferred. If you do not receive notification, it is possible that your loan remains in either Fresno or Little Rock, and you can inquire with those offices about the status.

Q10. Who would I contact in Herndon if I have an issue requiring SBA's approval? Answer: Send a brief e-mail summarizing the issue to the Herndon email address, loanresolution@sba.gov and the matter will be assigned to a loan officer. Please remember that actions within a lender's unilateral authority must be taken without notification to or approval from Herndon.

Q11. Who can I contact if I need immediate assistance on an urgent matter? Answer: The lender hotline telephone number is currently (703) 487-9283. Please leave a message and a loan officer will contact you. You may also fax information or urgent requests to (202) 481-4674.

Q12. How soon can I expect a response on urgent matters? Answer: Normally, you will be contacted within 24 hours of your inquiry.

Q13. What is the lender e-mail address for? Answer: The e-mail address loanresolution@sba.gov is provided to lenders for the submission of urgent and routine requests, in addition to the lender hotline telephone number and the Herndon fax number. If a matter is urgent, please so indicate in your e-mail.

Q14. Where will I send a guaranty purchase request? Answer: A guaranty purchase request should be submitted to the office that currently oversees servicing of your loan. If the loan is in regular servicing status in either the Fresno or Little Rock center, send your request directly to the appropriate center and the loan file and your purchase request will be sent to Herndon. If your loan is in liquidation status and already assigned to Herndon, send your guaranty purchase request directly to Herndon and your request will be matched with the loan file and assigned to a loan officer.

Q20. Does SBA have any suggestions to simplify SBA procedures for lenders? Answer: Yes, SBA encourages all lenders that are working with loans in liquidation to review SBA SOP 50 51 procedures prior to contacting the center. This SOP can be viewed on-line at <http://www.sba.gov/sops/>. Other instructional materials will be forthcoming.

Q22. Is the bank's transcript acceptable instead of using the SBA transaction history form? Answer: Lending institutions have their own unique electronic records and coding systems. If SBA can understand the coding on the bank transcript or the coding can be explained on the form, and shows a breakdown for application of principal and interest along with any other accounting transactions, SBA will be able to use the bank transcript. Otherwise, the lender will need to complete SBA's [Form 1149](#). The transcript submitted for purchase must be certified by the lender.



Top Lenders as of March 31, 2004

7(a) Loans -

National City Bank	66
US Bank	32
PNC Bank	30
Fifth Third Bank	24
Bank One	16

504 Loans -

Capital Access Corp-KY	16
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For the first six months of our FY2004, Kentucky Lenders have done an outstanding job increasing SBA loans over last year for the same period.

	2003 Midyear		2004 Midyear		Increase in production over 2003 for the same period	
SBA Loan Program	Number of Loans		Number of Loans		Increase in Loans	Increase in Dollars
7a	175	\$28,790,000	295	\$40,081,000	68.6%	32.9%
Micro	26	\$355,621	33	\$456,020	26.9%	28.2%
504	13	\$4,573,000	28	\$13,851,000	115.4%	202.9%

WE NEED YOUR HELP!

The Kentucky District Office's FY04 goal is to guarantee **886 loans** through our commercial lenders and other financial institutions such as credit unions and microlenders. We currently have 328 (7a and micro) loans, a little more than a third of our goal. This would be good, but we are at the halfway point of our fiscal year. To make our goal we should have 443 loans. In the table above you can see that we have enjoyed remarkable increases over last year and we very much appreciate and acknowledge your efforts! Our goals for fiscal year 2004 reflect a 49% increase over our goals for fiscal year 2003. The FY 2004 goals were established in anticipation of the improved loan demand that our lenders have been experiencing. So, to quote the words of a phrase: Pump up the volume!! **Increasing your SBA portfolio can also be very, very profitable for you, the lender, by selling the loans on the secondary market. Contact our office and we will be glad to show you how this is done and explain the benefits to be gained by your institution.**

*Higher Demand for 504 Funding in March as Rates Drop
\$241 Million Debenture Pool of 20-year Loans
Near Record December Levels*

	10 Year Debentures	20 Year Debentures
Debenture Rate	3.26%	4.34%
Note Rate	3.38%	4.40%
Spread over Treasury	0.56%	0.57%
Debenture Pool	\$9,456,000	\$241,008,000
Number of Loans	25	527

February employment reports, international currency pressures and mortgage portfolio hedging all attributed to the March drop in 504 loan debenture rates for the near record 527 borrowers in the March pool. Thinking back over your loan approvals for the past month, how many projects would have benefited from 20 year, fixed rate pricing at 4.34% allowing the bank:

1st collateral lien position on fixed assets including land & buildings.

Maintain the primary relationship with all banking services.

Variable rate pricing on the bank's portion of the project.

Call any of our Kentucky Certified Development Companies (CDC) to discuss this valuable source of SBA funding for fixed asset projects. Changes last year allow all CDC's to finance projects statewide. For more information:

List of Kentucky CDC's <http://www.sba.gov/ky/kycdc.html>

504 Program <http://www.sba.gov/financing/sbaload/cdc504.html>



U.S. Small Business Administration
Room 188 Mazzoli Federal Building
600 Dr Martin Luther King Jr. Place
Louisville, KY 40202



Orange County Convention Center Orlando, Florida

Wednesday, May 19 through Friday, May 21, 2004

www.sba.gov/50

[Register
Now!](#)

[Register Now!!!](#)

Early Bird discounts available by registering before April 17.

Join us at the U.S. Small Business Administration's SBA Expo '04 in Orlando May 19-21 for an incredible three days of networking and learning cutting-edge business practices. Great procurement opportunities will be available by connecting with government and corporate buyers.

Conference Highlights

BUSINESS MATCHMAKING

This is a unique and valuable way for small businesses to meet one-on-one with public and private organizations for procurement opportunities.

EXPO FLOOR

More than 300 exhibitors from both the public and private sector will be participating at the event to provide information as well as conduct business with small businesses.

BUSINESS SESSIONS

A superb lineup of educational seminars featuring expert panelists discussing the latest developments and best practices in the world of business and entrepreneurship.

[Schedule and event information](#)

Plus,

Join us at special events at Disney!



SCORE
Counselors to America's Small Business

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